G.R.S. IX—5]

Previous references. 1922.

File No. 147 of 22

Serial Nos. 9-12

Later references.

GENERAL AND REVENUE SECRETARIAT.

Serial Nos. 4

Part B for February 1923

SUBJECT

Distillation of Sandalwood oil.

File

Printed on the Multigraph.

Telegrams:
"ESSENFLOUR," MYSORE.

Codes:
"A.B.C. 5TH EDITION."
"BENTLEY'S."

ESSENFLOUR PRODUCTS LTD.,

GEN. & REV. SECRETARIAT
3172
10 JAN 1923
INDUSTRIES & COMMERCE
REFERENCE BRANCH.

DISTILLERS OF ESSENTIAL OILS,
MANUFACTURERS OF AROMATIC CHEMICALS AND
PERFUMERY PRODUCTS.

MYSORE (South India),
P.O. Box 101.

8th December 1922.

Received with personal memorandum dated 7.1.23

J.C. 147-22-9

Rajamantrapravina.
P. Raghavendra Rao, Esq., B.A., B.L.,
First Member of Council,
Bangalore

Sir,

In continuation of our letters Nos.1096 & 1097 both dated the 28th October 1922 regarding the distillation of Sandalwood Oil, we beg to submit for the favourable consideration of Government the following proposals for taking over the Sandal Oil business of the Mysore Government:-

The Essenflour Products, Ltd. will be prepared to work the Mysore Government Sandal Oil Factories, distil and sell the oil in the world's market to the best advantage of the Government of Mysore, acting as Managing Agents of the business. The terms on which they will be prepared to work the agency will be as follows:-

1) The Essenflour Products, Ltd. will take over charge of the factories and run them exercising full control over the labour

and processes employed.

2) The raw material, i.e., Sandalwood will be delivered at the factories by the Forest Department of the Mysore Government in such quantities as may be required up to a limit of 2,000 tons. No charges will be made for the supply of this wood and the net results of the year's operations will be credited under the Forest Revenues of the State. This will mean that the Sandal Oil concern will be an adjunct to the Forest Department.

3.) The Essenflour Products, Ltd. will distil the Sandalwood so delivered in the Government factories, financing the working capital required to distil the same; in return they shall be paid by Government a fixed amount per pound of oil distilled based on the average of the past six years' working of the Government Sandalwood Oil Factories, payment being made every quarter. In arriving at this amount,

i.e., rate per lb., the interest and depreciation charges and the commissions paid to Messrs. Whiffen & Sons, Ltd. and Sir Alfred Chatterton will not be taken into account.

4) The Essenflour Products, Ltd. will further market the oil to the best advantage of the Mysore Government establishing sales agencies under their management wherever and whenever necessary. They shall be paid for these services a commission of three per cent on the sales realizations.

5) To create an effective monopoly it may be necessary, at least for some few years to come to buy varying quantities of the Madras Sandalwood and all profits and losses that may accrue by the purchase, distillation and sale of the oil will be to the account of the Government of Mysore, who will provide funds for the purchase of the Madras Sandalwood; if, however, the Essenflour Products, Ltd. are desired to finance

the purchase, the purchase value and interest on the amount involved will be debited to the account of the Mysore Government.

6) The managing agency will be for a period of five years with option to continue for a further period of five years if the Essenflour Products, Ltd. think it advisable to retain the management.

7) The Essenflour Products, Ltd. will be prepared to guarantee a sum of eleven lakhs of rupees net annually to the Government of Mysore payable in four quarterly instalments.

We beg to submit that as this guarantee involves great risks we claim a guarantee insurance of ten per cent on this amount.

(This will mean that in every year a sum of at least eleven lakhs of rupees will be credited to Government and that the manufacturing and sales charges including the commission of three per cent referred to in paras 3 & 4 will be met only after the said sum of eleven lakhs has been credited to Government. If the realizations, for example, during any year should be fifteen lakhs of

rupees, a sum of eleven lakhs of rupees will be credited to Government and the balance of four lakhs only shall be payable to the Essenflour Products, Ltd. towards manufacturing and sales charges even though they had incurred more than that amount. If however the sales realizations during a year happen to be twenty lakhs of rupees, a guaranteed amount of eleven lakhs of rupees will be the first charge and will be paid to Government; the next charge will be manufacturing and sales charges payable to us which let us assume to be about five lakhs. Out of the balance amount of four lakhs available the Essenflour Products, Ltd. will get a sum of ten per cent on eleven lakhs or 1.1 lakhs. It is obvious from the above example that the Essenflour Products, Ltd. are practically guaranteeing Government a total sales realizations of sixteen lakhs for it is only when a quantity of oil realizing this sum has been sold that they can expect to get the guarantee amount; as otherwise they stand to lose to the extent depending upon the market conditions).

8) It is the ambition of the Essenflour Products, Ltd. to bring up the total sales of the Mysore Sandalwood Oil, as far as possible, to the pre-war limits, i.e., to a maximum of two lakhs

of pounds per year and beg to submit that they do deserve a fair claim on the balance left over after all charges, i.e.,

(i) the guarantee amount of eleven lakhs payable to Government

(ii) the manufacturing and sales charges as detailed above

(iii) the insurance guarantee

and (iv) interest and depreciation charges on the factory buildings and equipment

have been taken into account. Five per cent on this balance amount left over is, in our opinion, quite fair.

9) The Government of Mysore should undertake not to issue any license to anybody else within the State for the distillation of Sandal Oil.

10) The Government of Mysore should undertake not to export any Sandalwood from the State for purposes of distillation.

11) The Essenflour Products, Ltd. should be allowed full discretion to enter into any working arrangements for the

manufacture and sale of Sandal Oil with a view to safeguard the interests of the industry. ~~in xhe xStake.~~

12) The Government of Mysore will be debited the cost of any capital expenditure that may have to be incurred for the improvement of processes, etc.

13) While giving full advantage of new processes and discoveries to Government according to the contract the Essenflour Products, Ltd. will reserve the right to patent in their own name any discoveries or inventions of a patentable nature.

In regard to the Essenflour Products, Ltd. we beg to inform Government that it is a private limited company with a capital of two lakhs located in the City of Mysore for the distillation of Essential Oils and Aromatic Chemicals. The present turn-over is between three to four lakhs per annum. Among the shareholders of this company some of the most prominent are the following:-

Messrs.

M.L. Vardhamaniah, Mysore,
B.K. Garudachar, Bangalore,
S. Sajjan Rao, Bangalore,
N.S. Udupar, Nagar,
G.K. Padmarajiah, Sravanabelgola,
Mandi Hariyanna, Bangalore,
Parameswar Bhat, Shimoga District,
V. Ramalingam Mudaliar, Mysore,
and B. Sitaramachar, Mysore.

1039

REPLY

(To be written on this margin.)

To (5)
The First Secy
with compliments
Reed
9-12-22

Confidential

OFFICE OF THE
FIRST MEMBER OF COUNCIL

NOTE

Dated 9.12.1922

The attached letter was handed over to me just a while ago by the two sons of M.S. Varadhamanaiya and B. Sivaramachar, who had come to speak to me in the matter. Before the proposal is considered, the effect of the terms hereof from the financial point of view have to be examined, and I would therefore suggest the First Secy being consulted thereon with. Then the legal aspect may be considered. If from both these points of view the proposal commends itself, then it may be examined from the administrative point of view. I shall minute on the proposal after the First Secy & the Sec. to Govt. have dealt with it & recorded their respective views.

(2) Secy
The Secretary
P.D.

Reed
9.12.22
Let a file be opened in my name
Yes.
P.T.R.

Serial No.

4) I have carefully considered the terms of the offer and do not see in what respects the proposal is an improvement on the existing arrangement. On the other hand, I find that the new conditions of working involve new items of charges, e.g., guarantee insurance of 10 per cent. on the annual payment of Rupees 11 lakhs and 5 per cent. of the balance referred to in term No.8.

5) Any arrangement in which the interest of the Working Agents is not directly dependent on profits cannot work satisfactorily. According to this proposal the Company would take 3 per cent. on gross realisations and 10 per cent. of the annual payment of 11 lakhs and their interest in the net result of working is represented by their claim to 5 per cent of such result. With these conditions and with th freedom for regulating the price of oil, there is n incentive to work the Factory for the maximum profi and the whole arrangement seems to me to be unfavou able to Government.

6) It may be claimed in favour of the proposal that the Company offers to guarantee a fixed annual sum of 11 lakhs. What exactly is meant by this guarantee is not clearly stated. It perhaps means that the ~~xxx~~ Company will pay this amount even in years in which the sale proceeds are not sufficient fo

NOTE—Contn. sheet.

Serial No.

for making the payment and that the deficiency thus made up in one year will be met from the excess over 11 lakhs resulting from larger sales in a future yea The important question that arises for consideration is the financial capacity of the Company to make up/suc deficiencies. In the last para of the letter it is stated that the Essenflour Products, Ltd., has a capital of only 2 lakhs which is fully employed in its own business. The annual guarantee of 11 lakhs will have no financial value unless the Company is able to show the effecting backing of a Bank for allowing, whenever needed, accommodation to the extent of the maximum deficiency that may have to be made up in periods of depression.

7) The crux of the problem is the market for oil. If there is brisk demand, any arrangement -- the existing or the proposed -- will work but if the demand is slack and the depression continues, the inevitable consequence must be faced and the device of guarantee will also break down. If it is held that the methods of marketing under the present management are defective and if it is also believed that there is a market for oil but that our machinery for its disposal has not been able to exploit the market well, then a change of management is called for and a new arrangement may be tried for gaining

G. R. S. III-2]

General and Revenue Secretariat. | J&C File No. 147 of 1922

Serial No.

time is to be given to the Company. The Company ma raise or reduce prices generally or in particular cases.

15) It is not clear if 3 per cent. on sale realisations includes charges for warehousing oil pending sales.

16) Term No. 5. - An arrangement in which one party buys and sells and another party has to take the resulting gains or losses is not reasonable.

17) Financing purchase of Madras wood directly ~~a~~ by Government or indirectly through the Company mean lock up of funds when sales of oil are not brisk.

18) Term No. 6.- There should be power for reconsidering the terms at end of the first period.

19) Term No. 7. - How deficiencies in years in which the sum of 11 lakhs cannot be found from sale proceeds will be treated is not stated. Are they to be treated as advances to be set off against excesses in years of larger sales and if so, are such advances to ~~k~~ carry interest payable by Government ? In years in which there are such deficiencies to be made up how should the cost of production payable to the Company under term No. 3 ~~to~~ be treated ? Is it to be an advance to Government carrying interest ?

20) What is exactly meant by "a guarantee insurance of 10 per cent." on the annual payment of

11 lakhs

NOTE—Contn. sheet.

G. R. S. III-2]

General and Revenue Secretariat. | I & C File No. 147 of 1922

Serial No.

11 lakhs and how this condition is to be worked are not clearly explained. It is stated that out of the balance referred to in Term No. 7 the Company will get this 10 per cent. What about the years in which there is no such balance ? Is the 10 per cent. payable from future balances ? If so, the annual guaranteed sum is reduced by 10 per cent.

21) It is stated that the Company is practically guaranteeing Government a total sales realisation of 16 lakhs a year. I do not see how there can be any guarantee or any value of such guarantee.

22) Term No. 8. - I do not see any justification for all the following payments:-

(1) 3 per cent. commission on sales.

(2) 10 per cent. on 11 lakhs.

(3) 5 per cent. on balance referred to in this Term.

(4) Saving, if any, on cost of production excluding value of sandal wood compared with the rate under Government management.

23) Term No. 11.- I do not understand the reference to "any working arrangement for manufacture".

24) Term No. 12.- No capital expenditure can be incurred without the permission of the proprietor of the concern.

Cowell
13-12-22

NOTE—Contn. sheet.

G. R. S. III-2]

General and Revenue Secretariat. | J & C File No. 147 of 1922

Serial No. (25)

(cl 2) Raw material to be delivered at the Factory. — How does this proposal differ from the existing practice? If Sandalwood is not delivered at present at the Factory, what will be the extra cost under the proposed scheme?

Net profits to be credited to the Forest Department. This is no concern of the Company.

(cl 3) Cost of production based on 6 years' average — Is this profitable to the Government?

Working charges. Do they include hire of the building? The hire of the machinery may perhaps be included in the profits and depreciation charges but not the rent for the building.

(cl 4) Commission of 3 per cent for agencies established —

This will be in lieu of what we pay to Whiffens and Sir Alfred Chetterton. Is this advantageous to the Government?

Who will pay the transport charges? (See under 7— Sale charges).

(cl 5) It is not clear what the company means by saying that all losses on account of the purchase of Madras wood will be 'to the account of Mysore'. I believe the money required for the purchase should come from the working capital and if from the Government, it must be treated as an advance to the company to be realised

NOTE—Contn. sheet.

Serial No.

from the sale amounts. If this is not agreed to by the company, how are the losses on account of the Madras wood to be determined? Why should the Mysore Government pay interest on the money to be advanced to the company for the purchase of the Madras wood?

(7) In the illustration given, the Insurance amount has been calculated after deducting from the total realisation, the guaranteed amount 11 lakhs plus the working expenses & the Commissions ~~&c~~ amounting to 5 lakhs. What if the realisations from sale fall below 16 lakhs Is the Insurance amount payable?

(8) ~~5 per cent over the net realisations.~~ How does this compare with the present arrangements?

(12 & 13) When the Government are to be debited with the cost of improvement of processes, they should have the 1st refusal. There is no guarantee as to how much of the wood will be taken. Tere is no guarantee also as regards the price of the wood. In the absence of these conditions, the company will have a right to distil the whole of the quantity of sandalwood i. 2000 tons and pay us in return 11 lakhs only by a suitable reduction in the price of oil. This will give the Forest Department a sum of nearly Rs.600 per ton which is far below the average price the wood fetched prior to the establishment of the factory. If the Company is to be given the agency, it must guar-

NOTE—Contn. sheet.

G. R. S. III-2]

General and Revenue Secretariat. | Jtc File No. 147 of 1922

Serial No.	
	guarantee the price of sandalwood which should not be less than ₹1000 per ton.
	The financial effects of the proposals both as regards the company and as regards the Government will have to be worked out taking the average quantity of oil sold during the last three years.

Draft
16/12

NOTE—Contn. sheet.

G. R. S. III-2]

General and Revenue Secretariat. | I & C File No. 147 of 1922

Serial No.	
4956-4648 15.12.22	25) Forwarded with compliments. This matter was informally discussed yesterday at the Council meeting. Peel 15.12.22
	The Second Member.
	27) In my views please see the note appended. Peel 16/12
5841-533 19.12.22	28) The financial aspect of the proposal has been dealt with in the first para of note 7. I do not think any useful purpose will be served by going over the same ground here. Yet it would be interesting to know what the Essenpeus people have to say in reply to the observations made by the first Secy. If it is considered necessary or desirable. I can send for Messrs Sitaramachar & Ramachandraiya discuss the points in note & report the result.
	Term No 1. No remarks.
	2. Whether the wood is delivered at the factory by the Forest Dept or delivery is taken by the factory at the Kotis it makes little

NOTE—Contn. sheet.

Serial No.

pondered difference for the transport charges will have to be borne by the factory, as he (Secretary) kept only undertaken delivery at the kotli. The second point is understood. That is more with the no arbitrary price fixed for the wood deliveries.

Item No 3. First portion - no remarks.
Second portion - vide H. Secy's note.

" No 4. What is now paid is a commission of 1¾ p.c. & Six A.C. & 2p.c. & Differences i.e. total 3¾ p.c against 3 p.c. asked for now.

" No 5. This is not advantageous to Govt. Nor can the decision about necessity be left solely to the Company.

" No 6. Not advantageous to Govt. It is one sided & in favour of the Company only

" No 7. No remarks. This depends upon the other conditions.

" No 8. No advantage to Govt at all.

" No 9. This is understood.

" No 10 —— do ——

" No 11 —— do ——

" No 12. Not unless it is concerned in the Govt. the same being obtained previously. Except under extraordinary circumstances.

" No 13. This is an extraordinary proposal. If processes are discovered & patented after the working of the factory is transferred from Govt. the first must be equal shares in the business. ~~Patents~~ Patentee of such as are patented previous to such transfer, Govt. can have no claim.

(29)

I am not convinced that the proposals made are sufficiently attractive and I feel that it would not be advisable to come to any

NOTE—Contn. sheet.

G. R. S. III-21

General and Revenue Secretariat.

I & C File No. 147 of 1922

Serial No.

terms with the Essenpleus people like the results of Mr. C. Ramanatha Rao Sahebi deputation are known. No a decision has been come to both as regards Whipers Agency and Sir Alfred's services, yet no definite arrangements have been thought of about the future marketing of Sandalwood oil, and ~~[illegible]~~ the matter is meant to be kept in abeyance till Mr. C.R.Rao Sahebi reports are received. Before a decision is arrived at, the proposals of the Essenpleus people & the reports of Mr. C.R. Rao Sahebi have to be carefully considered together.

Rec
8.1.23

3) It is perhaps premature at this stage to consider the question as to the alternative either on the financial or administrative aspect.

(1). Dewan)

Rec
8.1.23

Moved by Hon'ble Mr. Rep. that a reply may be given in the lines of the Orderings of the Proposals. Mr. Co. ... they have any alternative proposals, they may then be considered for the merits of the case.

NOTE—Contn. sheet.

D 3172 J.C. 10

G. R. S. III-2.

General and Revenue Secretariat. | J&C File No. 147 of 1922

Serial No.

32) It may perhaps be better to have a further informal discussion with the parties at this stage. It may then be possible to give them a free indication how the terms of reference are ultimately amplified.

Lee
(33) 16.1.23.
(81 Members)

Mss 11/1
(34)

S:701-385 / 13.1.23

This subject was informally discussed at the Meeting of the Council on 8th instant. It was considered desirable for the members to have further discussion with Messrs Vaidhanathaiyar & B. Sitaramachari, & discuss the matter further with them at a place convenient before Council for further consideration. These gentlemen may be asked to come and see me, here about 3 p.m. on 24th (or 25th) instant.

In duty allin Lee

Peel 15.1.23

(36) Lee 15.1.23

(66) Submitted with a draft.

15.1.23. (37) Approved Lee 16.1.23

NOTE—Contn. sheet.

G. R.-S. III-2]

General and Revenue Secretariat. | Jdc File No. 147 of 1922

Serial No.

10. D.O. No. 4444-5 dated 16th Jan. 1923.
to Messrs. B. Sitaramachar & M. L. Vardhamanayya.

(58) Resubmitted after issue. The file may if approved be ~~Sent~~ submitted to the First Member (for the ~~2nd~~ meeting on the 24th inst).

VS
19.1.23. (59) ... Sec
(1st member) 19.1.23

(60) Please see Member's orders on the file linked hereto.

5907-5-91
22.1.23

7/8/23
25.1.23. (61) Please communicate
Sec
25.1.23

(62)
Messrs Vardhamana & Sitaramachar have been requested to wait upon the 1st Member on Monday the 31st inst. at 3 p.m. The papers are submitted for reference.

(63) C/Sec'y
26.1.23

(64) (1st Member)
Sec
29.1.23

P.T.O.

NOTE—Contn. sheet.

6204-889
30.1.23

Serial No.

(45)

Messrs Tarkhamaniyan & Sitaramachar came & saw me this afternoon & I talked the matter over with them & explained briefly indicating to them why the offer made by them was not considered to be advantageous to Govt from the financial point of view chiefly. I put before them the counter proposal of Govt that the marketing should be separated from the manufacture & that the sole agency for the former & the agencies & them on terms to be settled subsequently if they accepted the offer. They said that as this was a radically different proposal to their own they required time to consult their Madras directors & discuss the matter with them. I said that they could have time to do so provided it was not an unreasonably long one. They replied that they would big & send their reply to Govt at a very early date. This reply of theirs may be awaited.

(46) Reel
31.1.23
Messrs

Sec'y (J) 31.1.23
Govt

(47)

(48)

NOTE—Contn. sheet.

G. R. S. III-2]

General and Revenue Secretariat. | 9c File No. 147 of 1922-23.

Serial No.	
	No action is called for until the further communication expected is received.

(51) 28-2-23

NOTE—Contn. sheet.

G. R. S. VI—G/32]

SUBJECT.....

.....

.....

*Diary No. of letter replied to*_____

General and Revenue Secretariat

( )

, *the* . 191 .

Section Dtc .

File No. 147-22

Serial No. 10

80 No. 4444-S.

Date of issue 16th January 1923

Signed by Mr. Ag. A Dyeer

To

(1) B. Sitaramachar Esq.

(2) M. L. Vardhamanayya Esq.

Essenflour Products Ltd.

Post Box No 101

Mysore.

Dear Sir,

With reference to the Memorandum presented by you to the First Member of Council on the 8th December 1922 on behalf of the Essenflour Products Ltd for taking over the Sandal oil business of the Mysore Government.

over.

I am desired to state that the First Member would be glad to discuss with you about the proposals of the company if you can kindly meet him in his chambers at the Public offices on Wednesday the 24th instant at 3 P.M.

I am to request the favour of an early reply.

Yours Sincerely,

15.1.23

List of enclosures.

Copied by

Examined by

Telegrams:
"ESSENFLOUR," MYSORE.

Codes:
"A.B.C. 5TH EDITION."
"BENTLEY'S."

·2893·7

ESSENFLOUR PRODUCTS LTD.,

DISTILLERS OF ESSENTIAL OILS,
MANUFACTURERS OF AROMATIC CHEMICALS AND
PERFUMERY PRODUCTS.

J 3871

REFERENCE

GEN. & R.
22 JAN 1923
INDUSTRIES & CO...

MYSORE (South India),
P.O. Box 101.

20th January 1923.

Rec'd 22.1.23.

G. Aravamuda Iyengar, Esq., B.A., B.L.,
Secretary to Government
General & Revenue Secretariat,
Bangalore.

Ste 149-22-11

Put up file at once
Mr 22/1

Dear Sir,

In reference to your D.Os No.Ic.4444-5/I & C of the 16th instant addressed to Mr. Sitaramachar and to Mr. Vardhamaniah, we are sorry that we cannot call on the First Member of Council on Wednesday the 24th instant as desired by you as we have got a previously arranged engagement on that date. Mr. Sitaramachar has gone to the Mines and will be back on the 29th instant. We shall be obliged if you will kindly let us know whether it would be convenient for the First Member to see us either on the 30th or on the 31st of this month.

Thanking you,

We remain,
Yours faithfully,
ESSENFLOUR PRODUCTS LTD.
M. Vardhamaniah

MCK.

The file is before the 1st member. This may be noted in continuation for orders
Key 22/1
Mr 22/1/23

N.B.—Should routine notes be written on small slips, the notes must be copied, or slips pasted on this form.

First Member's orders (1st Member)

Messrs Sitarama Char & Vardhamaniah may be informed. Letter to the

G.R.S. III—3]

Routine Notes.

[To be used only for notes, requisitions, etc., not intended for permanent record.]

above enquiry that they might come over here & further discuss their proposals with the First Member on Wednesday the 31st instant at 3 p.m.

Sd/-
25/1/23

(Subject to the General's)

Draft Subd.
25.1.23.

V.B.—Should routine notes be written on small slips, the notes must be copied, or slips pasted on this form.

No. IC. 4678-9
dt 26.1.1923.

G. R. S. VI—G/32]

SUBJECT.....

.....

.....

Diary No. of letter replied to

Section 9+c
File No. 147-22
Serial No. 112

General and Revenue Secretariat
( )
, *the* 191 .

No. 9.0.4678-79/24c

Date of issue 26.1.23.

To
(1) B. Sitaramachariar Esq
(2) M. L. Vardhamanayya Esq

Signed by Mr. M. S. R. Rao

Dear Sir,

I am desired to ~~state~~ inform that as desired by you in your letter No 26 of the 20th inst the Joint Member of Council would be glad to further discuss with you the proposal of the Essenflour Products Ltd in making taking over Government business on Wednesday the 31st Jan

over.

at ½ P.M. in his chambers
& the Public offices

yours sincerely,

VS

Clk

List of enclosures.

Copied by

Examined by